Grady Health System
Evaluation of Going Concern
FYE December 31, 2018
HB 321

<u>Accounting Guidance</u>

ASC 205-40-50-5 states:

When evaluating an entity's ability to meet its obligations, management shall consider quantitative and qualitative information about the following conditions and events, among other relevant conditions and events known and reasonably knowable at the date that the financial statements are issued:

a. The entity's current financial condition, including its liquidity sources at the date that the financial statements are issued (for example, available liquid funds and available access to credit)
b. The entity's conditional and unconditional obligations due or anticipated within one year after the date that the financial statements are issued (regardless of whether those obligations are recognized in the entity's financial statements)
c. The funds necessary to maintain the entity's operations considering its current financial condition, obligations, and other expected cash flows within one year after the date that the financial statements are issued.
d. The other conditions and events, when considered in conjunction with (a), (b), and (c) above, which may adversely affect the entity's ability to meet its obligations within one year after the date that the financial statements are issued.

<u>Discussion</u>

<u>a. Grady's Current Financial condition</u> has been favorable for the last five years with results for income from operations of:

- **2014 – $34,359,000**
- **2015 – $46,385,000**
- **2016 –$ 44,321,000**
- **2017 – $41,266,000**
- **2018 – $25,126,000**

<u>a. Liquidity</u> – Unrestricted Cash was $181M as of 12/31/18 compared to $221M as of 12/31/17. Days Cash on Hand for the last five years have been:

- **2014 – 50**
- **2015 – 59**
- **2016 – 76**
- **2017 – 80**
- **2018 – 56**

<u>a. Available access to credit</u> – As discussed in the notes to the financials, Grady has an unused line of credit of $30M with a bank for emergencies and at this time does not expect to use it in the coming year. In fact, the line of credit has been available for many years and has not been used for at least the last 5 years. Grady also has approx. $3.6M payable in Capital Equipment Leases as of the end of 2018 and $4.4M as of the end of 2017.

<u>b. Conditional and unconditional obligations due within 1 year known and unknown</u> – Grady's obligations over the next year are to pay approx. $2.5M to the FDHA annually for the next 30 years related to the FDHA lease and transfer agreement that was put in place 11 years ago. There is an obligation of payment on our capital lease of approx. $780K in 2018 and our operating lease contracts equate to payment of approx. $5.7M in 2018. One of our largest expenses other than payroll is to the Emory and Morehouse Schools of Medicine for professional fees which in 2018 equated to approx. 176M. When looking at our current ratio it has increased to 2.54 in 2018 from 2.35 in 2017.

<u>c. and d. Funds necessary to maintain operations in current condition/other conditions and events</u> – Grady is expected to meet it's 2019 budget of approximately 40M Excess and maintain a 3+% margin consistent with our long-term operating margin targets. Given recent tax legislation, ICTF/UPL funding is expected to remain near current levels until FFY2020. Additionally, Grady is currently pursuing several key initiatives over the next 5 years, such as:

- **Care Logistics to improve patient experience and boost efficiency by lowering length-of-stay;**
- **Care Coordination savings and revenue maximization;**
- **Quality enhancement and variation reduction;**
- **Renegotiation of our Medical School Affiliation agreements; and**
- **State approved legislation to apply for an 1115 Medicaid Waiver for the uninsured and 1332 Waivers to address the private insurance market.**

The results of these initiatives are expected to assist us in meeting or exceeding our long-term margin goals.

<u>Conclusion</u>

Based upon our consideration of the qualitative and quantitative information including, but not limited to factors described in ASC 205-40-50 and ASC 205-40-55, we believe that Grady has the ability to meet its obligations for the next year and will continue as a going concern at least for that time period.